



## H.R. 3959 – To amend the National Flood Insurance Act of 1968 to provide for the phase-in of actuarial rates for certain pre-FIRM properties

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### FLOOR SITUATION

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H.R. 3959 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Scott Garrett (R-NJ) on October 24, 2007. The bill was reported as amended from the Committee on Financial Services by voice vote on January 16, 2008.

H.R. 3959 is expected to be considered on January 23, 2008.

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### BACKGROUND

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The National Flood Insurance Program (NFIP) was created by Congress in 1968 and is administered by the Federal Emergency Management Agency (FEMA). The purpose of the program is to reduce the risk of catastrophic flood damage through floodplain management, improve risk assessment through flood mapping, and promote flood insurance coverage and construction standards to guard against future damages.

FEMA issues Flood Insurance Rate Maps (FIRM) that identify flood prone areas that are eligible to participate in NFIP. Buildings that were constructed prior to the issuance of FIRMs pay discounted flood insurance rates on the first \$35,000 of their structures insured value and full risk-based premium rates for the remaining value.

*\*Note: A structure is pre-FIRM if the date of construction or substantial improvement date is before December 31, 1974.*

NFIP currently provides coverage to more than 5 million people. Since the 2005 hurricane season, the NFIP has accumulated approximately \$18 billion in debt to cover its claims, leading the General Accounting Office to include it in its list of high risk federal programs because “the NFIP will unlikely generate sufficient revenues to repay the billions borrowed from the Department of the Treasury to cover flood claims from the 2005 hurricanes. And it is unlikely that NFIP—a key component of the federal government’s efforts to minimize the damage and financial impact of floods—could cover catastrophic losses in future years.”

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### SUMMARY

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H.R. 3959 reduces NFIP premium subsidies for single family primary residences that were purchased for at least \$600,000. The premiums for these properties will be increased by 15 percent annually beginning on January 11, 2011, until full actuarial rates are met.

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### COST

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According to the Congressional Budget Office (CBO), H.R. 3959 would direct the Federal Emergency Management Agency (FEMA) to increase premiums for certain policyholders that pay less than the actuarial cost (the amount estimated to cover expected claims in any given year) of their flood insurance policies. Any premium increase implemented as a result of the bill would yield additional receipts to the National Flood Insurance Program (NFIP); however, CBO estimates that such funds would be spent to



# LEGISLATIVE DIGEST

HOUSE REPUBLICAN CONFERENCE | CHAIRMAN ADAM PUTNAM

1420 LONGWORTH HOB, WASHINGTON, DC 20515

[www.GOP.gov](http://www.GOP.gov)

PHONE 202.225.5107

FAX 202.226.0154

cover the ongoing costs of the program, resulting in no significant net effect on direct spending. Enacting this legislation would not affect revenues.” ([CBO Cost Estimate for H.R. 3959](#))

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## STAFF CONTACT

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For questions or further information contact Brianne Miller at (202) 226-2302.